

Decentralization and the Challenge of Policy Alignment: Lessons from Financial Regulation

Rezky Ananda^{*1}, Hidayati Fitri¹, Nurul Aini Octavia¹, Sarmen Aris¹, Zulkifli¹

¹ Universitas Islam Negeri Mahmud Yunus Batusangkar

Correspondence:

rezkyananda029@gmail.com

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Abstract: *This field study examines the legal authority of Wali Nagari (village heads) in Tanah Datar Regency with particular reference to Nagari Sungai Tarab. Under Regional Regulation No. 4/2008, the Wali Nagari is designated as the chief financial administrator of the nagari. Conversely, Nagari Regulation No. 7/2022 assigns revenue from the nagari market directly to the Village-Owned Enterprise (BUMNag), requiring deposits through the BUMNag treasurer. This arrangement contradicts Regent Regulation No. 21/2020 on Village Financial Management, which reaffirms the Wali Nagari as the sole executive authority over nagari finances. The study finds a regulatory disharmony: two interrelated rules govern the same financial domain but diverge in content, competence, and implementation. The resulting conflict has created a legal vacuum and operational uncertainty—Wali Nagari follow the regent's regulation, whereas BUMNag adheres to the nagari rule—thereby impairing financial oversight and undermining local governance. The findings underscore the need for harmonizing village and regency regulations to ensure coherent financial management and effective public administration at the nagari level.*

Keywords: *Wali Nagari Authority, Village Financial Management, Regulatory Disharmony, Tanah Datar Regency, BUMNag*

Introduction

Traditional markets in West Sumatra, particularly those governed by the Nagari system, represent not only centers of local economic activity but also serve as integral parts of the Nagari's customary assets. (Azwar et al., 2020) The concept of nagari, as a unit of local governance rooted in Minangkabau adat (customary law), provides each nagari with relative autonomy in managing its internal affairs, including communal resources such as markets. (Rahmat et al., 2023) In this context, regulations at the provincial and regency levels, such as West Sumatra Provincial Regulation Number 2 of 2007 and Tanah Datar Regency Regulation Number 4 of 2008, reinforce the authority of the Wali Nagari in overseeing and being accountable for the financial management of Nagari assets.

However, regulatory inconsistencies can emerge when local legislation at the Nagari level is not aligned with higher-level government rules. ((Hans) de Bekker & Saefullah, 2019) A notable example is found in Nagari Sungai Tarab, where Nagari Regulation Number 7 of 2022 delegates market revenue management to BUMNag (Nagari-Owned Enterprises), while Regent Regulation Number 21 of 2020 clearly designates the Wali Nagari as the sole authority responsible for Nagari finances. This discrepancy

raises concerns about regulatory disharmony and the potential erosion of legal certainty in village financial administration.

The principle of *lex superior derogat legi inferiori*, which asserts that lower-tier regulations must conform to those of higher authority (Neta et al., 2022), becomes critical in this scenario. The overlapping mandates between BUMNag and the Wali Nagari not only hinder effective governance but also reflect deeper challenges in the vertical synchronization of local legal frameworks. This study seeks to examine the legal and administrative implications of such disharmony, particularly in the management of Nagari markets, and to explore the broader consequences for customary governance in Indonesia.

Literature Review

Nagari Regulation (*Peraturan Nagari*)

The legal status and authority of nagari regulation have been the subject of numerous academic and normative discourses. (Akmal & Nurhabibi, 2020) Although Nagari regulation is not explicitly included in the legislative hierarchy as defined in Article 7(1) of Law No. 13 of 2022 on the Formation of Legislation, its legitimacy is rooted in Law No. 6 of 2014 on Villages. According to this law, village regulations (*peraturan desa*) – which include Nagari regulation – are formally recognized as binding legal instruments, created jointly by village heads and representative bodies to address local governance needs. (Vel & Bedner, 2015)

Several scholars argue that the exclusion of nagari regulation from the formal legislative hierarchy does not diminish its legal authority at the village level, particularly in regions with strong customary institutions such as West Sumatra. (Rahmadani et al., 2023) These regulations are seen as a reflection of Indonesia's commitment to legal pluralism and democratic decentralization (Hidayat, 2017), which allow local governments to adopt laws tailored to the social and cultural contexts of their communities. (Mustafa, 2021) This notion is reinforced by Government Regulation No. 72 of 2005, which stipulates that village regulations must be formulated by both the village head and the Village Consultative Body (BPD), grounded in the needs and aspirations of the local population.

From a procedural standpoint, the development of nagari regulation also includes participatory mechanisms (Akmal & Nurhabibi, n.d.), as communities are encouraged to provide feedback, either orally or in writing. This participatory principle reflects the broader democratic framework of village governance. Furthermore, West Sumatra Provincial Regulation No. 2 of 2007 explicitly affirms that nagari regulation must be enacted by the Wali Nagari in collaboration with the *Badan Permusyawaratan Nagari* (Nagari Consultative Council), highlighting the hybrid nature of governance that blends statutory authority and customary institutions.

In this context, Nagari regulation not only serves as a regulatory tool for administering village affairs, including financial and asset management, but also as a legal manifestation of local autonomy and cultural identity. Therefore, understanding its function and relation to higher-level regulations is essential for assessing regulatory harmonization and governance effectiveness at the local level.

The Legislative Process of Nagari Regulations

The formation of *Peraturan Nagari* (Nagari Regulations) adheres to Indonesia's legislative framework, particularly those applicable within the Province of West Sumatra. The stages of legislative development reflect both formal legal structures and the customary participatory values of the Minangkabau community. (Wiwoho et al., 2024) The process begins with a planning phase, during which the *Program Legislasi Nagari* (Nagari Legislative Program) is drafted. This document contains a list of proposed regulations, which may be initiated by either the Wali Nagari (Nagari Head) or the *Badan Permusyawaratan Nagari* (Nagari Consultative Body). This is followed by the drafting stage, where a special committee formed by the Wali Nagari prepares a draft regulation. This draft must incorporate key legal principles such as clarity of purpose, alignment with higher-level regulations, and responsiveness to community interests. (Efendi et al., 2022)

Next, the deliberation stage involves joint discussions between the Wali Nagari and BPN. Deliberations are guided by consensus-building and include input from the local community and other stakeholders. (Cecchini & Donati, 2020) Upon reaching agreement, the regulation enters the ratification phase, where it is formally enacted by the Wali Nagari through an official decree. The newly adopted regulation is then promulgated, typically via the Nagari Gazette or other official media, granting it binding legal status. This step ensures transparency and public accessibility. Following promulgation, a socialization phase is conducted to disseminate the content and purpose of the regulation, ensuring community awareness and compliance. Lastly, the regulation enters the implementation and evaluation phase, wherein the local government applies the rule, monitors its effectiveness, and revises it if necessary in response to evolving community conditions. (Mubangizi, 2019) This entire process is grounded in deliberation and participatory principles rooted in Minangkabau customs, reflecting a localized model of democratic governance.

Nagari Sungai Tarab Regulation No. 7 of 2022 on Nagari Market

Nagari Sungai Tarab Regulation No. 7 of 2022 concerning the Nagari Market stipulates mechanisms for supervision and evaluation of its implementation. The regulation grants oversight authority not only to the Nagari government but also empowers the local community to monitor and evaluate its execution. This regulatory framework was established to support the functioning of the Nagari government by reinforcing a system of checks and balances between the executive body – the Wali Nagari – and the Nagari Consultative Council (*Badan Permusyawaratan Rakyat Nagari*).

In accordance with the principles of decentralization and regional autonomy, village governments – or their equivalents such as nagari in West Sumatra – are authorized to manage and regulate matters of local interest. (Khairi et al., 2024) Such governance is grounded in ancestral customs (*adat*) and traditions, which are recognized and respected within the framework of the unitary state of the Republic of Indonesia. As such, local legal instruments in West Sumatra are termed *Peraturan Nagari* (Nagari Regulations), and they serve as an expression of legal pluralism within Indonesia's decentralized legal system. (Yevendri, 2023)

Tanah Datar Regent Regulation No. 21 of 2020 on Guidelines for Nagari Financial Management

Tanah Datar Regent Regulation No. 21 of 2020 provides a regulatory framework for the financial administration and utilization at the nagari level in Tanah Datar Regency, West Sumatra. The regulation is designed to guide nagari governments in planning, executing, monitoring, and reporting their financial activities to ensure transparency, accountability, and compliance with applicable laws. This regulation emphasizes the importance of participatory budget planning through the preparation of the Nagari Revenue and Expenditure Budget (*APBNagari*), which must reflect community needs and development priorities. All revenues must be recorded systematically and spent according to the approved budget, with proper supervision to prevent mismanagement.

Financial governance is expected to be carried out by qualified personnel, and the management process must adhere to principles of good governance, including the preparation of reliable financial reports. (Muslimin & Aprianto, 2023) Oversight responsibilities lie with various supervisory institutions such as the Nagari Consultative Council (*Badan Permusyawaratan Nagari*) and the regional inspectorate, which are authorized to ensure proper accountability practices are in place. The regulation also outlines mechanisms for resolving disputes arising in the management of nagari finances to ensure the rule of law is upheld. As a revision to the previous Regent Regulation No. 5 of 2019, this regulatory update seeks to harmonize local financial practices with evolving national legislation and regional administrative needs.

Method

This study employs a qualitative field research approach, aimed at gaining a comprehensive understanding of the phenomena experienced by the research subjects within a natural and specific

context. The qualitative method was chosen to explore in-depth insights into the social, legal, and administrative dynamics surrounding the implementation and regulation of nagari governance. Data collection was conducted using three primary techniques: interviews, observations, and documentation. Interviews were carried out with key stakeholders relevant to the research focus, including local government officials, Wali Nagari, members of the *Badan Permusyawaratan Nagari* (Nagari Consultative Body), and other community actors. Observations were made directly at the research site to capture real-time practices and the socio-cultural setting influencing the implementation of local regulations. In addition, various documents such as local regulations (*Peraturan Nagari*), regent regulations (*Peraturan Bupati*), and official reports were reviewed to support data triangulation and ensure analytical validity.

Results and Discussion

Draft-Making Process for Nagari Regulation No.7/2022 on the Sungai Tarab Market - Academic Synthesis

The Nagari Secretary and the Chair of the *Badan Permusyawaratan Rakyat Nagari* (BPRN) show that the regulation was drafted through an iterative, community-centred deliberation (*musyawarah*). The initiative originated with local residents who sought a formal framework for market management—including kiosk leases, stall levies of roughly IDR15 million per year, and weekly parking fees of IDR50 000. Once grassroots concerns were recorded, the Wali Nagari—as the executive authority—coordinated drafting sessions with customary leaders, BPRN members, and BUMNag (Nagari-Owned Enterprise) representatives. Dialogue focused on ensuring that each clause addressed practical issues such as stall allocation, levy collection, and enforcement, while remaining consistent with higher-level provincial and regency regulations.

The resulting draft was circulated for public comment; no formal objections were recorded, indicating broad social acceptance. Following adjustments, the draft was jointly approved by the Wali Nagari and the BPRN, promulgated through a Nagari Decree, and subsequently socialised to traders and residents. This participatory pathway illustrates how nagari governance integrates statutory authority with adat-based consensus, producing a locally legitimate regulatory instrument that balances economic order, community welfare, and legal compliance.

The Legal Disharmony between Tanah Datar Regent Regulation No. 21/2020 and Sungai Tarab Nagari Regulation No. 7/2022 on Market Governance

The discrepancy between Tanah Datar Regent Regulation No. 21 of 2020 on Guidelines for Nagari Financial Management and Sungai Tarab Nagari Regulation No. 7 of 2022 on Nagari Market Governance represents a case of vertical legal disharmony. Although both regulations address the management of local public resources, they assign financial authority to different institutions. The Regent Regulation explicitly vests financial management authority in the Wali Nagari as the head of the nagari government, while the Nagari Regulation delegates financial administration—particularly revenues collected from market stalls—to BUMNag, through its treasurer.

According to interview findings with Mr. Syufrihadi, the Secretary of Nagari Sungai Tarab, this divergence has led to confusion in the field. While the Wali Nagari holds formal control over financial management under the Regent Regulation, the implementation at the local level assigns operational control of specific funds—such as those from market stall rental fees—to BUMNag. This creates ambiguity regarding institutional responsibilities and weakens financial accountability mechanisms. Further, the Wali Nagari and BUMNag serve fundamentally different functions. The Wali Nagari is tasked with administrative governance, public service, and development planning, whereas BUMNag is an economic entity designed to develop and manage nagari-owned assets and local business potential. Despite the operational overlap in practice, legal clarity is essential to avoid misinterpretation and conflicting mandates.

In response to this legal misalignment, a harmonization process is necessary. Regulatory consistency can be achieved through a review and adjustment of the Nagari Regulation to ensure alignment with the higher Regent Regulation. Coordination and consultation with the regency government can guide this process and ensure compliance with prevailing statutory norms. Any revised regulation must reflect a clear division of roles and responsibilities, in accordance with both customary practice and formal legal standards. This situation highlights the broader challenge of aligning local customary-based regulations with the national legal hierarchy. Adherence to the principle of *lex superior derogat legi inferiori*—where higher legal norms override those at lower levels—is vital to maintaining coherence and legitimacy in decentralized governance frameworks. Ensuring legal harmony not only protects administrative order but also strengthens the institutional foundation of nagari autonomy.

The Impact of Regulatory Disharmony on Local Governance: The Case of Financial Regulation in Sungai Tarab Nagari

The coexistence of Tanah Datar Regent Regulation No. 21 of 2020 on Guidelines for Nagari Financial Management and Sungai Tarab Nagari Regulation No. 7 of 2022 on the Local Market reveals a misalignment in regulatory frameworks that has led to significant governance challenges. This disharmony has generated a legal vacuum, whereby local actors are left without a unified reference point. While the Wali Nagari adheres to the regent-level regulation, the BUMNag relies on the nagari regulation, thereby fragmenting the implementation of financial procedures at the local level.

One of the most direct consequences of this misalignment is the lack of regulatory synchronization. The contradictory delegation of financial authority—between the Wali Nagari and BUMNag—creates legal ambiguity and administrative confusion. This often leads to decisions being made without a clear legal basis, raising concerns about the legitimacy of the regulatory framework and compliance with higher legal norms. Furthermore, financial mismanagement becomes a pressing risk when regulations are not harmonized. Market revenues, for instance, may not be reported or allocated according to formal financial standards established by the regency. This undermines transparency, hinders accountability, and weakens trust in public institutions. The problem is compounded by potential conflicts between different levels of government, where the regency may perceive the nagari's regulatory autonomy as overstepping its legal mandate.

This regulatory conflict may also erode public confidence. When community members observe inconsistencies between overlapping legal instruments, it diminishes their trust in the legal order and in the institutions responsible for enforcing it. In such an environment, public compliance—such as paying market levies or participating in development programs—may decline significantly. Legal uncertainty caused by this disharmony also leads to inefficiencies in the allocation and management of financial resources. For example, funds allocated for market infrastructure may be delayed or rendered inaccessible due to procedural conflicts. In some cases, the nagari may even face financial losses, particularly if administrative errors result in legal sanctions or a failure to optimize potential revenue.

In the broader context of local development, this regulatory fragmentation ultimately disrupts the effective functioning of the local market as an economic hub. The lack of coherent legal guidelines hampers the construction of market facilities, stalls the issuance of business permits, and impedes investment in market-related infrastructure. To address these issues, a multi-layered approach is essential. Revising the nagari regulation to align with regency-level directives would provide a coherent framework for financial governance. Constructive dialogue and consultation between the two levels of government could help mediate conflicting interests and clarify institutional roles. Technical assistance from the regency administration would ensure that nagari officials are adequately guided in legal drafting and compliance. Moreover, transparent communication with the public would be crucial to reinforce legitimacy, improve compliance, and reestablish public trust. The resolution of this regulatory conflict is urgent. Legal harmony between local and regional regulations is a prerequisite for effective decentralized governance, fiscal accountability, and sustainable community development.

Conclusion

The regulatory disharmony between Tanah Datar Regent Regulation No. 21 of 2020 and Sungai Tarab Nagari Regulation No. 7 of 2022 illustrates a critical weakness in the synchronization of multilevel governance within Indonesia's decentralized framework. The conflict over financial authority and regulatory oversight in the management of local markets not only creates administrative confusion but also undermines the effectiveness of public service delivery and financial accountability at the nagari level. This misalignment has led to overlapping responsibilities between the Wali Nagari and BUMNag, resulting in legal ambiguity, inefficiency in fund management, and reduced public trust. Moreover, the absence of a unified regulatory standard has impaired the ability of local institutions to plan, implement, and evaluate development programs effectively, particularly in the economic sector. To mitigate these consequences, a coordinated regulatory framework is essential. This includes revising local regulations to ensure compliance with higher legal norms, strengthening intergovernmental coordination, and enhancing legal drafting capacity at the village level. Through such measures, local governance can become more coherent, transparent, and responsive to community needs—ultimately contributing to a more stable and effective system of decentralized administration.

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Conflict of Interest

This article has no conflicts of interest.

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